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Report Highlights:

The Australian wine industry has experienced strong growth in production and exports over the past decade growing from just 60,000 hectares under grape vines ten year ago to just below 160,000 today. However, this growth has created oversupply problems that are now resulting in significant price declines. The industry is now facing a period of restructure and reorganization.

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Annual Report
Canberra [AS1]
[AS]

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SECTION ONE: SITUATION AND OUTLOOK

General

The Australian wine industry has experienced strong growth in production and exports over the past decade growing from just 60,000 hectares under grape vines ten year ago to just below 160,000 today. However, this growth has created oversupply problems that are now resulting in significant price declines. The industry is now facing a period of restructure and reorganization.

Recent ABARE reports forecast Australian wine grape prices to continue to decline. Prices for wine grapes suitable for white wine production are forecast to continue falling out to 2010/11 while grapes suitable for red production are forecast to improve beyond 2006/07. Falling prices and increasing stock levels have caused at least one large winemaker to write down stock values while some other winemakers are reportedly unable to constrain debt.

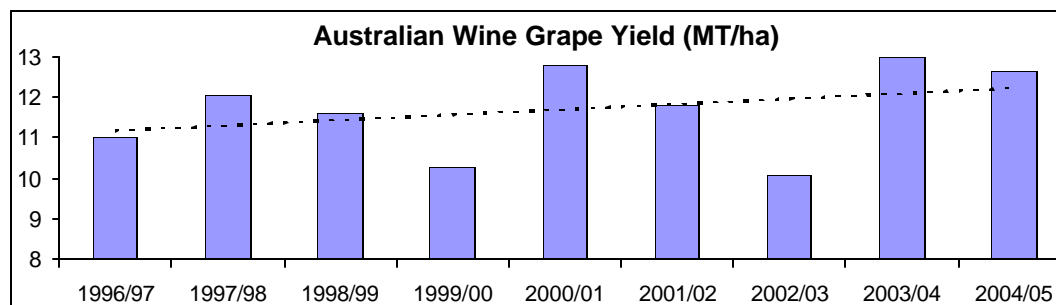
Despite declining prices, new plantings are continuing albeit at a much slower pace and continue to outpace removals. This is likely to see production continue to increase beyond the outlook period. More importantly, the industry is now beginning to remove significant areas of less productive vines and leaving lower value fruit on the vine. Post anticipates the quality of Australian wines to benefit over the longer term from these events.

Wine stock levels have also received much media attention recently with one story stating that Australia's wine stocks equate to more than one glass of wine for every person in the world. Post anticipates wine stocks to become a significant driver in future exports and domestic consumption.

Production

Total wine grape production for 2006/07 is forecast at 1,825 TMT. This figure is slightly lower than the revised estimate for the previous year, and well under the record level of production experienced in 2004/05. Wine grape production at this level would likely produce 1,278 THL of wine, using a conversion factor of 0.7.

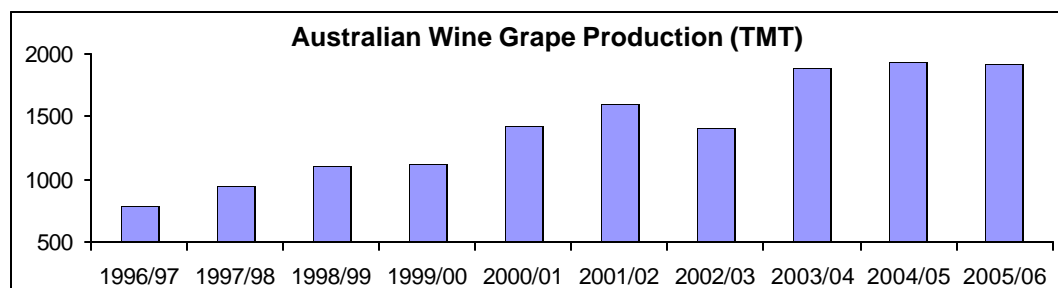
A return to yields more reflective of the longer-term average will likely see production fall slightly. The past two years have seen exceptional yields due to near perfect production conditions. Post has assumed a yield of 11.62 MT per hectare while the 2004/05 and 2005/06 yields are estimated at 13.17 and 12.05 MT per hectare respectively. According to ABARE historical data, the ten-year average stands at 11.75 MT per hectare.



Source: ABARE Data (July-June)

Wine grape production for 2005/06 is estimated at 1,845 TMT, up from the 1,829 TMT previously forecast by post. Media reports have recently stated that wine grape production

could have easily reached 2,000 TMT if a reported 200,000 MT were not left on the vine, although Post has been unable to qualify these reports. According to these reports, burgeoning stock levels did not allow for harvesting of the entire crop with the lowest value wine grapes left to rot on the vine.



Source: ABARE Data (July-June)

A production level of 1,825 TMT, should it be achieved in 2006/07, would be considered a large crop despite representing a fall on the previous year. Historical data shows the Australian wine industry to have grown strongly over the past decade with only one decline in production in 2002/03. Post expects production to climb slowly beyond 2006/07 in line with ABARE's long-term projection, reaching 1,935 TMT in 2010/11.

Lower average prices have seen progressive falls in new plantings over the past five years and has seen some vine removals, although plantings are expected to continue to exceed removals. Post anticipates continued growth in total area planting to wine grapes albeit it at a much slower pace in the past.

Prices

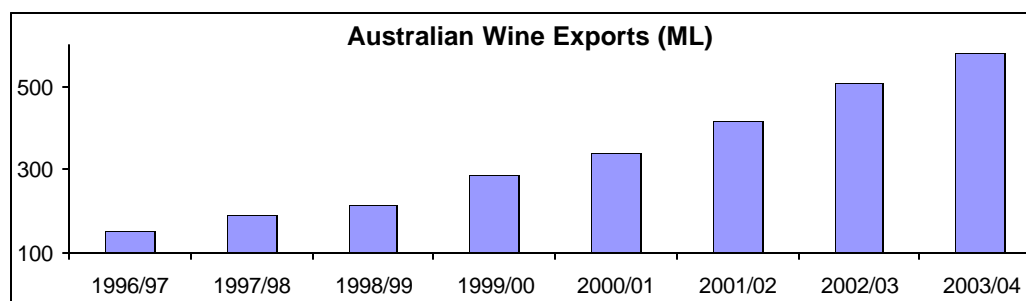
A recent ABARE report forecasts prices for grapes suitable for white wine production to fall from an estimated A\$522 per MT in 2005/06 to A\$489 per MT in 2006/07, while prices for red varieties are forecast to fall from A\$413 to A\$409 respectively. ABARE projects white wine prices to continue to fall out to 2010/11 while red varieties are forecast to begin to increase from 2007/08 to 2010/11.

Exports

Total wine exports for 2006/07 are forecast at 7,570 THL (757 million litres), up seven percent on the previous year. Falling wine prices within Australia and burgeoning stock levels are likely to see solid export growth in 2006/07.

Wine exports for 2005/06 has been revised to 7,074, in line with year-to-date data. This represents a five percent increase on the previous year.

ABARE reports that for 2004/05 export volumes grew by around 14 percent while total export value grew by only seven percent. Post expects that this trend will likely continue into 2005/06 and 2006/07.



Source: ABARE Data (July-June)

Imports

Total wine imports for 2006/07 are forecast at 275 THL, up on the 267 estimated for the previous year. Post expects wine imports to continue to grow from a small base in line with the growth in consumption of wine generally. Post anticipates imported wines to continue to fill a niche position in the domestic market.

Consumption

Total domestic consumption is forecast at 4,850 THL, up on the revised estimate of 4,700 THL for the previous year. Post considers domestic consumption to be relatively strong with economic growth expected at around 3.25 percent in 2006/07. Increased production and lower prices are also expected to see some discounting at the retail level and this is also expected to see consumption increase.

ABARE recently reported that it is expecting only small increases in domestic sales with exports now accounting for 60 percent of production and commanding the bulk of interest among potential wine exporters.

Stocks

Total wine stocks for 2006/07 are forecast to close at a record 17,813 TML. This figure is causing much concern within the Australian wine industry. Post anticipates that this figure is likely to become a major factor in export performance and domestic consumption.

Marketing

The Australian Wine and Brandy Corporation (AWBC) is charged with the responsibility *"enhancing the operating environment for the benefit of the wine industry by providing a leading role in quality and integrity, knowledge development and market development"*.

The AWBC runs collaborative wine marketing programs through its offices in Australia, London, The Hague, Tokyo, Vancouver, New York and Toronto. The AWBC also provides a leading role in resolving market access issues.

The AWBC also provides statistical collection and analysis. The AWBC also provides a licensing and product quality integrity service ensuring that the quality of Australian wine is strictly monitored.

SECTION TWO: STATISTICAL TABLES

PSD Table Wine							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2004		07/2005		07/2006	MM/YYYY
TOTAL Grape Crush	0	1924	0	1845	0	1825	(1000 MT)
Begin Stock (Ctrl App)	0	0	0	0	0	0	(1000 HL)
Begin Stock (Other)	0	0	0	0	0	0	(1000 HL)
TOTAL Beginning Stocks	0	13346	0	15765	0	17178	(1000 HL)
Prod. from Wine Grapes	0	12798	0	12250	0	12110	(1000 HL)
Prod. from Tabl Grapes	0	670	0	670	0	670	(1000 HL)
TOTAL PRODUCTION	0	13468	0	12920	0	12780	(1000 HL)
Intra-EU Imports	0	0	0	0	0	0	(1000 HL)
Other Imports	0	231	0	267	0	275	(1000 HL)
TOTAL Imports	0	231	0	267	0	275	(1000 HL)
TOTAL SUPPLY	0	27045	0	28952	0	30233	(1000 HL)
Intra-EU Exports	0	0	0	0	0	0	(1000 HL)
Other Exports	0	6720	0	7074	0	7570	(1000 HL)
TOTAL Exports	0	6720	0	7074	0	7570	(1000 HL)
Dom.Consump(Cntrl App)	0	0	0	0	0	0	(1000 HL)
Dom.Consump(Other)	0	4560	0	4700	0	4850	(1000 HL)
TOTAL Dom.Consumption	0	4560	0	4700	0	4850	(1000 HL)
End Stocks (Cntrl App)	0	0	0	0	0	0	(1000 HL)
End Stocks (Other)	0	15765	0	17178	0	17813	(1000 HL)
TOTAL Ending Stocks	0	15765	0	17178	0	17813	(1000 HL)
TOTAL DISTRIBUTION	0	27045	0	28952	0	30233	(1000 HL)

Recent Reports from FAS/Canberra

The reports listed below can all be downloaded from the FAS website at:
<http://www.fas.usda.gov/scripts/AttacheRep/default.asp>.

Report Number	Title of Report	Date
6024	Ag Down Under Vol 6	04/21/06
6025	Grain Quarterly Lockup	05/01/06
6026	Ag Down Under Vol 7	05/09/06
6027	Cotton & Products Annual	05/15/06
6028	Justification for Requirement for Wood Packaging Material to be Bark Free	05/15/06
6030	Review of Permitted Seeds List for Australia	05/19/06
6031	Ag Down Under Vol 8	05/19/06
6032	Dairy Semi Annual	05/30/06
6033	Wheat Australia sells 350,000 MT to Iraq	05/31/06
6034	Ag Down Under Vol. 9	06/02/06